

**REPORT OF THE AUDIT OF THE
TODD COUNTY
SHERIFF'S SETTLEMENT – 2014 TAXES**

**For The Period
January 5, 2015 Through April 15, 2015**



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EXECUTIVE SUMMARY

**AUDIT OF THE
TODD COUNTY
SHERIFF'S SETTLEMENT – 2014 TAXES**

**For The Period
January 5, 2015 Through April 15, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Todd County Sheriff for the period January 5, 2015 through April 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected 2014 taxes of \$462,383 for the districts, retaining commissions of \$16,577 to operate the Sheriff's office. The Sheriff distributed 2014 taxes of \$445,740 to the districts. Taxes of \$66 are due to the districts from the Sheriff.

Report Comments:

- 2014-001 The Todd County Sheriff Should Enter Into A Written Collateral Security Agreement With The Financial Institution To Protect Deposits
- 2014-002 The Todd County Sheriff's Office Has A Lack Of Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities, but the Sheriff did not sign a written collateral security agreement securing the Sheriff's interest in those securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Daryl Greenfield, Todd County Judge/Executive
Honorable Tracy White, Todd County Sheriff
Members of the Todd County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Todd County Sheriff's Settlement - 2014 Taxes for the period January 5, 2015 through April 15, 2015 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period January 5, 2015 through April 15, 2015 of the Todd County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2016 on our consideration of the Todd County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Todd County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Todd County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Daryl Greenfield, Todd County Judge/Executive

Honorable Tracy White, Todd County Sheriff

Members of the Todd County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Todd County Sheriff Should Enter Into A Written Collateral Security Agreement With Financial Institution To Protect Deposits
- 2014-002 The Todd County Sheriff's Office Has A Lack Of Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

February 5, 2016

TODD COUNTY
TRACY WHITE, SHERIFF
SHERIFF'S SETTLEMENT – 2014 TAXES

For The Period January 5, 2015 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 45,774	\$ 67,569	\$ 178,933	\$ 56,408
Tangible Personal Property	3,673	6,384	14,357	15,705
Fire Protection	95			
Franchise Taxes	40,250	63,891	157,269	
Oil Property Taxes	261	363	1,019	321
Limestone, Sand and Gravel Reserves	367	511	1,434	452
Penalties	2,218	3,295	8,656	2,779
Adjusted to Sheriff's Receipt	1	5	2	1
Gross Chargeable to Sheriff	<u>92,639</u>	<u>142,018</u>	<u>361,670</u>	<u>75,666</u>
<u>Credits</u>				
Exonerations	69	119	267	
Discounts	26	42	102	12
Delinquents:				
Real Estate	12,149	17,791	47,386	14,938
Tangible Personal Property	459	798	1,795	3,186
Franchise Taxes	<u>16,970</u>	<u>27,233</u>	<u>66,268</u>	
Total Credits	<u>29,673</u>	<u>45,983</u>	<u>115,818</u>	<u>18,136</u>
Taxes Collected	62,966	96,035	245,852	57,530
Less: Commissions *	<u>2,676</u>	<u>4,081</u>	<u>7,375</u>	<u>2,445</u>
Taxes Due	60,290	91,954	238,477	55,085
Taxes Paid	<u>60,290</u>	<u>91,888</u>	<u>238,477</u>	<u>55,085</u>
Due Districts				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 66</u>	<u>\$ 0</u>	<u>\$ 0</u>

**

* Commissions:

 4.25% on \$ 216,529

 3% on \$ 245,850

** Special Taxing Districts:

 Pond River \$ 66

 Due District \$ 66

The accompanying notes are an integral part of this financial statement.

TODD COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Todd County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

TODD COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2015
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Todd County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2015, the Sheriff's bank balance was exposed to custodial credit risk; while the bank did adequately collateralize the Sheriff's deposits, the Sheriff did not sign a collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 5, 2015 through April 15, 2015.

B. Franchise Taxes

The real and personal franchise tax assessments were levied as of January 1, 2014. Franchise taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 5, 2015 through April 15, 2015.

C. Oil, Limestone, Sand and Gravel Taxes

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 5, 2015 through May 15, 2015.

Note 4. Interest Income

The Todd County Sheriff earned \$64 as interest income on 2014 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Todd County Sheriff collected \$14,004 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Daryl Greenfield, Todd County Judge/Executive
Honorable Tracy White, Todd County Sheriff
Members of the Todd County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Todd County Sheriff's Settlement - 2014 Taxes for the period January 5, 2015 through April 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 5, 2016. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Todd County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Todd County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Todd County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-002 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Todd County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2014-001.


Sheriff's Responses to Findings

The Todd County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

February 5, 2016

COMMENTS AND RECOMMENDATIONS

TODD COUNTY
TRACY WHITE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 05, 2015 Through April 15, 2015

STATE LAWS AND REGULATIONS:

2014-001 The Todd County Sheriff Should Enter Into A Written Collateral Security Agreement With The Financial Institution To Protect Deposits

The Sheriff did not require the depository institution to prepare and enter into an agreement with the Sheriff to protect deposits. As of February 5, 2015, the Sheriff had bank deposits of \$292,207; FDIC insurance of \$250,000; and collateral pledged or provided of \$2,261,970. Even though the Sheriff obtained sufficient collateral of \$2,261,970, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. According to federal law, 12 U.S.C.A. § 1823(e), this pledge of collateral, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and, (c) an official record of the depository institution. The Sheriff should enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution.

Sheriff Tracy White's Response: The Todd County Sheriff's Office is covered under the Todd County Fiscal Court, United Southern Bank covers all our accounts.

Auditor's Reply: The bank has pledged assets to the Sheriff's Tax Account, therefore the Sheriff does need to sign his own collateral security agreement.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-002 The Todd County Sheriff's Office Has A Lack Of Segregation Of Duties

The Todd County Sheriff's Office has a lack of segregation of duties due to the same employee being responsible for collecting tax monies, posting to receipts and disbursement ledgers, preparing and making deposits, writing and signing checks to taxing districts, preparing monthly tax reports, and reconciling checking accounts. By not segregating certain accounting functions one employee is given access to all transactions with little or no oversight. This lack of oversight allows for the increased risk of fraud or theft. Good internal controls over the financial reporting duties help ensure that reports are accurately reported and reduce the risk of fraud or theft. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities. To adequately protect against misappropriation of assets and inaccurate financial reporting, the Sheriff should separate the duties involved in receiving cash, preparing bank deposits, posting cash receipts to the ledger, preparing the monthly bank reconciliation, comparing the weekly, monthly, and quarterly reports to the receipts and disbursements ledgers, writing checks, posting to the disbursements ledger as well as preparing the financial report. If that is not feasible, due to a limited number of staff, strong oversight over those areas should be documented and involve an employee not currently performing any of those functions.

Sheriff Tracy White's Response: The Todd County Sheriff's Office does not have the resources or revenue to address the issue of segregation of duties. Lack of office staff keeps us from being able to eliminate this problem. We were instructed that if we were to perform compensating controls that we could eliminate part of this problem.

